

ORIGINAL

EXHIBIT 1

CONFIDENTIAL

**ENTIRE
DOCUMENT
WITHHELD**

**NOT FOR PUBLIC
DISCLOSURE**

EXHIBIT 2



Universal Service Administrative Company

Internal Audit Division

October 27, 2009

Doug Brannagan, Treasurer
Grande Communications Networks
401 Carlson Circle
San Marcos, TX 78666

RE: Final USAC Audit Report for Grande Communication Networks (Filer ID 820409),
Grande Communications ClearSource (Filer ID 820892), Denton Telecom Partners
(Filer ID 822850)

Dear Mr. Brannagan:

Enclosed is a copy of the final audit report for Grande Communication Networks. On October 22, 2009, the USAC Board of Directors (Board) approved the final audit report. The final Board-approved audit report constitutes a final decision of the Administrator for purposes of seeking review from the Federal Communications Commission (FCC) in accordance with 47 C.F.R. § 54.719(c). This letter constitutes the first formal notice to Grande Communication Networks that the final audit report has been approved by the Board. This report contains an estimate of additional USF contributions currently due from Grande Communication Networks. This estimate may not reflect the actual amounts ultimately invoiced by USAC Financial Operations.

The filing deadline for requesting FCC review of the Administrator decision is set forth in 47 C.F.R. § 54.720(a) and provides that requests for review must be filed within sixty (60) days of "issuance" of the decision from which review is sought. The date of this letter shall constitute the date of issuance of the final audit report for purposes of seeking FCC review.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Colleen Grant", is written over a horizontal line.

Colleen Grant
Senior Internal Auditor

Cc Wayne M. Scott, Vice President of Internal Audit Division
Steven Augustino

EXHIBIT 3

REDACTED

KELLEY DRYE & WARREN LLP

A LIMITED LIABILITY PARTNERSHIP

WASHINGTON HARBOUR, SUITE 400

3050 K STREET, NW

WASHINGTON, D.C. 20007-5108

NEW YORK, NY

CHICAGO, IL

STAMFORD, CT

PARSIPPANY, NJ

BRUSSELS, BELGIUM

AFFILIATE OFFICES

MUMBAI, INDIA

FACSIMILE

(202) 342-8451

www.kelleydrye.com

(202) 342-8400

DIRECT LINE: (202) 342-8612

EMAIL saugustino@kelleydrye.com

July 15, 2009

Ms. Colleen Grant
Universal Service Administrative Company
2000 L Street, NW
Suite 200
Washington, D.C. 20036

Re: Audit of Grande Communications, Inc.

Dear Ms. Grant:

For the past year USAC's Internal Audit Division ("IAD") has been conducting an audit of subsidiaries of our client, Grande Communications, Inc. ("Grande"). The audit encompasses 499-A filings by Grande entities in 2005, 2006 and 2007. As you know, IAD has provided draft audit findings ("DAFs") and Grande has responded to those DAFs.¹ I am writing to provide additional information relevant to the Grande audit. This information, which only became known to Grande last week, further demonstrates that IAD's revised Reseller DAF employs an incorrect legal standard for identifying reseller revenue for USF purposes.

Revised Reseller Revenue DAF

On May 22, 2009, IAD provided a revised Reseller DAF proposing to reclassify as end-user revenues amounts originally reported by Grande as wholesale revenue. All of these revenues were generated from services Grande provided to other telecommunications carriers. As Grande explained in its June 10, 2009 Response, the FCC's universal service rules require "every telecommunications carrier" to contribute to the USF based on its own end-user telecommunications revenues. Wholesale carriers were "relieved ... from contributing directly to the support mechanisms" for these revenues. The DAF errs, Grande explained, by making

¹ Grande submitted responses to the DAFs on June 10, 2009 and provided supplemental responses on June 19, 2009.

Colleen Grant
 July 15, 2009
 Page Two

Grande the “guarantor” for wholesale customers that did not fulfill their own obligation to contribute to the USF. Grande supplied extensive evidence of reseller customers who contributed or should have contributed to the USF during the relevant years.

Grande now possesses additional evidence regarding one of its resellers – [REDACTED] – that confirms Grande’s position. In the DAFs, IAD reclassified revenues from [REDACTED] on the 2005, 2006 and 2007 499-A Forms. IAD’s rationale (as we understand it) was that [REDACTED] did not in fact contribute to the USF during these years.

We have recently learned that, at the same time IAD was auditing Grande, USAC also conducted an audit of [REDACTED]’s [REDACTED] 499-A filings. USAC’s position in the [REDACTED] audit confirms Grande’s interpretation of the USF rules – and contradicts IAD’s position in the Grande audit. Specifically, in the [REDACTED] audit, USAC concludes that [REDACTED] is a telecommunications carrier providing end-user telecommunications services, and therefore that [REDACTED] is responsible for contributing to the USF directly. The facts of the [REDACTED] audit are summarized below.

According to an appeal filed by [REDACTED], USAC conducted an audit of [REDACTED]’s 499-A filings for [REDACTED].²

[REDACTED] In other words, [REDACTED] operates as a reseller of telecommunications capacity it obtains from others (such as Grande).

2

3

[REDACTED] Appeal at [REDACTED]

4

Id.

5

Id. [REDACTED]

REDACTED

Colleen Grant
July 15, 2009
Page Three

██████████ contends that its own customers also are resellers, and therefore that ██████████ is not obligated to contribute to the USF.⁶ If ██████████ is correct, then it also follows that Grande – which is a wholesale provider to ██████████ – similarly is not obligated to contribute on its wholesale revenues from ██████████. But even if ██████████ is incorrect, and consequently if ██████████ must contribute directly, Grande is relieved of its obligation to contribute based on revenues received from ██████████. In that scenario, ██████████ is a reseller, is “expected to contribute” to the USF, and Grande properly should report the revenues as wholesale revenues.

We note that IAD conducted both the Grande and the ██████████ audits. Indeed, IAD audited ██████████ in ██████████, well before completing its audit of Grande.⁷ IAD clearly should have been aware of its classification of ██████████ when conducting the audit of Grande. Its failure to take notice of the ██████████ audit leads to inconsistent results. In fact, it would result in double collection of USF contributions – once from ██████████ (or ██████████’s customers) and once from Grande.

More broadly, the ██████████ appeal illustrates a fundamental problem with IAD’s approach to reseller revenues. The Commission’s USF rules place the contribution obligation on the carrier that receives end-user telecommunications revenues. When Grande’s telecommunications carrier customers purchase wholesale telecommunications services from Grande, the customer is responsible for paying USF on the revenues it collects from its end users. So long as Grande’s customer is a reseller obligated to contribute, Grande is relieved of the obligation to pay USF on those revenues. This is true even if the reseller fails to fulfill its obligation, because “the fact that the instructions require a wholesaler to prove that it is providing service to a contributing reseller rather than an end-user does not alter the reseller’s fundamental obligation...to report their end-user revenues on and contribute to the fund.”⁸

6

7

8

Petition for Review of American Cyber Corp., 22 FCC Rcd 4925, ¶ 16 (WCB 2007) (emphasis in original).

Colleen Grant
July 15, 2009
Page Four

Thus, IAD approached the reseller question from the wrong angle. It should investigate Grande's resellers to determine whether they are resellers obligated to contribute to the USF. If they are, then Grande's classification of the revenue as wholesale is correct. Any resellers obligated to contribute, but who fail to do so, should be investigated by USAC (or the FCC). As noted in the Response, Grande pledges to work with IAD staff to assist such investigations.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven A. Augustino". The signature is stylized with a large, sweeping initial "S" and a distinct "A".

Steven A. Augustino

Attachment

EXHIBIT 4

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of:)
)
)

Grande Communications Request for Review)
of Decision of the Universal Service)
Administrator)
_____)

WC Docket No. 06-122

DECLARATION OF STEPHEN K KNOUSE

1. My name is Stephen K. Knouse and I am employed by Grande Communications Networks LLC as its Vice President of Finance. My primary job responsibilities include overseeing the financial records of the company, overseeing the budget and reforecast process, and maintaining good internal control.
2. This Declaration is being submitted on behalf of Grande Communications ClearSource, Inc. ("ClearSource"), Denton Telecommunications Partners I, LP ("Denton") and Grande Communications Networks, Inc. ("Networks") (collectively, "Grande" or the "Company"). ClearSource, Denton and Networks provide residential and business customers with DSL high-speed Internet, dial-up access, local and long distance telephone service and digital cable services. Networks also provides a variety of network services, on a wholesale basis, to interexchange carriers, CLECs and Internet Service Providers for their use in serving other carriers or providing information directly to their end user subscribers. Grande provides its services using a combination of its own network and facilities obtained from other carriers.
3. I am submitting this Declaration to provide information about the subscriber line charge Grande collects from its end user subscribers.

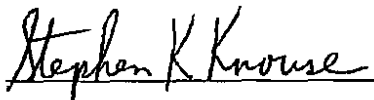
A. Grande's Subscriber Line Charge

4. During the time period relevant to the USAC audit, Grande provided combinations of cable TV, internet and local exchange telephone services to end users in Texas.
5. Grande billed end users for local exchange telephone services through at least two charges, a monthly service fee described as a "customer line charge" and one or more charges for services and features provided to the customer. All customers were assessed

a "customer line charge" for the cost of providing local dial-tone services. In some markets, Grande described this fee as a "subscriber line charge." However, this was the same charge as the "customer line charge" assessed in other markets, and, like the customer line charge, was assessed to recover Grande's cost of providing local dial-tone services.

6. Service and feature charges were assessed in packages such as "Homeline" or "Homeline Select" that provided local calling plus different packages of features such as Call Waiting, Call Forward, Speed Dial, etc. In addition, customers are assessed separate charges for other optional services, such as expanded calling areas, toll restrictions, non-published numbers and Caller ID services.
7. Grande's customer line charge is a component of Grande's local exchange service charges. The amount of the charge varies in each local exchange market that Grande serves. The customer line charge is included on subscriber invoices under a heading identifying monthly service charges. The customer line charge is not described as a federal charge and these monthly charges are listed separately from the federally-mandated surcharges and other taxes.
8. Grande reports its customer line charge as intrastate revenues in all regulatory and financial documents it is required to file. Grande assesses intrastate taxes and fees on the customer line charge revenue and contributes to the State of Texas' universal service fund ("Texas USF") based on these revenues. It is Grande's understanding that the Texas USF is based only on intrastate revenues.
9. Grande's customer line charge was not a federal charge for interstate access. Grande's federal access tariff, Tariff F.C.C. No. 1, does not contain a subscriber line charge. In fact, Grande's federal access tariff does not contain any end user line charge whatsoever. Further, it is Grande's understanding that, as a CLEC, it is not subject to the Federal Communications Commission's ("FCC") separations process and therefore, is not obligated to structure its interstate access charges to include a federal SLC.

I assert under penalty of perjury that the foregoing is true and correct to the best of my information and belief. This concludes my declaration.



Dated: December 23, 2009

Stephen K. Knouse

Vice President of Finance

EXHIBIT 5

Pre-June 23, 2005

Grande Communications Networks, Inc.

F.C.C. Tariff No. 2
Original Sheet No. 1

Grande Communications Networks, Inc.

**401 Carlson Circle
San Marcos, Texas 78666**

INTERSTATE CARRIER SWITCHED ACCESS TARIFF

This tariff contains the description, regulations and rates for the furnishing of services and facilities for switched access telecommunications services provided by Grande Communications Networks, Inc. to Carrier Customers originating from or terminating to locations within the United States. The Company's principal offices are located at: 410 Carlson Circle, San Marcos, Texas 78666. This tariff is on file with the Federal Communications Commission, and copies may be inspected, during normal business hours, at the Company's principal place of business San Marcos, Texas.

Issued: June 25, 2004

Effective: June 27, 2004

**By: Kristene Stark
Tariff Administrator
401 Carlson Circle
San Marcos, Texas 78666**

TABLE OF CONTENTS

	Page
CHECK SHEET.....	4
SYMBOLS.....	5
TARIFF FORMAT	6
SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS.....	7
1.1. Definitions	7
1.2. Abbreviations.....	9
SECTION 2 - RULES AND REGULATIONS	10
2.1. Undertaking of the Company.....	10
2.2. Limitations of Service.....	11
2.3. Limitations of Liability	12
2.4. Responsibilities of the Carrier Customer.....	16
2.5. Allowances for Interruptions in Service	18
2.6. Applications for Service	21
2.7. Installation of Service	22
2.8. Termination of Access Service	23
2.9. Blocking of Access Traffic	31
2.10. Effect on Interstate Interexchange Carrier Presubscription	35
2.11. Payment of Charges	35
2.12. Contested Charges	36
2.13. Taxes.....	36
SECTION 3 - DESCRIPTION OF SERVICE.....	37
3.1. Timing of Calls	37
3.2. Service Commencement Date.....	39
3.3. Service Cancellation Date.....	39
3.4. Access Service Offerings	40

Issued: May 21, 2001

Effective: May 22, 2001

**By: Kristene Stark
Tariff Administrator
401 Carlson Circle
San Marcos, Texas 78666**

TABLE OF CONTENTS

	Page
3.5. Additional Carrier Customer Service Offerings	41
SECTION 4 - RATES AND CHARGES	42
4.1. Access Service Offerings.....	42
4.2. Miscellaneous Charges	43

Issued: May 21, 2001

Effective: May 22, 2001

**By: Kristene Stark
Tariff Administrator
401 Carlson Circle
San Marcos, Texas 78666**

SECTION 3 - DESCRIPTION OF SERVICE (Cont'd)

3.5. Additional Carrier Customer Service Offerings

3.5.1. Miscellaneous Services

3.5.1.A. Access Order Change

An Access Order Change is a change in the Carrier Customer's service requested subsequent to installation.

3.5.1.B. Carrier Identification Code (CIC) Activation

Upon request, the Company will activate the Carrier Customer's assigned Carrier Identification Code ("CIC") per end office or tandem switch, as applicable, to enable the use of Feature Group D switched Access Services.

3.5.1.C. Bad Check Charge

If payment for Service is made by a check, draft, or similar instrument (collectively "Check") that is returned to the Company unpaid by a bank or another financial institution for any reason, the Company may bill the Carrier Customer a returned check charge. In addition, the Customer may be required to replace the returned Check with a payment in cash or equivalent to cash, such as cashier's check, certified check or money order.

3.5.1.D. Late Payment Fee

A late payment fee of 1.5% will be applied to service charges not paid by the due date of the bill. The late payment fee will not be applied to previous late payment charges that have been assessed but remain unpaid, but will apply to the accumulated amount for which the Carrier Customer is in arrears. This late fee may be assessed only once per bill for services rendered.

Issued: May 21, 2001

Effective: May 22, 2001

**By: Kristene Stark
Tariff Administrator
401 Carlson Circle
San Marcos, Texas 78666**

Grande Communications Networks, Inc.

F.C.C. Tariff No. 2
Fifth Revised Sheet No. 42
Replaces Fourth Revised Sheet No. 42

SECTION 4 - RATES AND CHARGES

4.1. Access Service Offerings

4.1.1. Carrier Switched Access Service

4.1.1.A. Common Carrier Line

{R}

Per minute charge:

Composite rate paid to incumbent

4.1.1.B. End Office Switching

Per minute charge:

Composite rate paid to incumbent

4.1.1.C. Common Transport

Per minute charge:

Composite rate paid to incumbent

Per minute per mile:

Composite rate paid to incumbent

4.1.1.D. Tandem Switching

Per minute charge:

Composite rate paid to incumbent

{R}

4.1.2. Blocking of Access Traffic

This service is offered on an ICB.

Issued: June 25, 2004

Effective: June 27, 2004

**By: Kristene Stark
Tariff Administrator
401 Carlson Circle
San Marcos, Texas 78666**

SECTION 4 – RATES AND CHARGES (Cont'd)

4.2. Miscellaneous Charges

4.2.1. Access Order Activation Charge

Per activation: \$25.00

4.2.2. Access Order Modification Charges

Design Change Charge: \$26.21

Service Date Change Charge: \$26.21

4.2.3. CIC Activation Charge

First End Office: \$63.00

Additional End Office: \$35.00

4.2.4. CIC Change Charge

First End Office: \$63.00

Additional End Office: \$35.00

4.2.5. CIC Removal Charge

First End Office: \$63.00

Additional End Office: \$25.00

4.2.6. Bad Check Charge

Per returned check: \$25.00

Issued: May 21, 2001

Effective: May 22, 2001

**By: Kristene Stark
Tariff Administrator
401 Carlson Circle
San Marcos, Texas 78666**

Post - Jun 23, 2005

Grande Communications Networks, Inc.

F.C.C. Tariff No. 2
Original Sheet No. 1

Grande Communications Networks, Inc.

**401 Carlson Circle
San Marcos, Texas 78666**

INTERSTATE CARRIER SWITCHED ACCESS TARIFF

This tariff contains the description, regulations and rates for the furnishing of services and facilities for switched access telecommunications services provided by Grande Communications Networks, Inc. to Carrier Customers originating from or terminating to locations within the United States. The Company's principal offices are located at: 410 Carlson Circle, San Marcos, Texas 78666. This tariff is on file with the Federal Communications Commission, and copies may be inspected, during normal business hours, at the Company's principal place of business San Marcos, Texas.

Issued: June 25, 2004

Effective: June 27, 2004

**By: Kristene Stark
Tariff Administrator
401 Carlson Circle
San Marcos, Texas 78666**

TABLE OF CONTENTS

	Page
CHECK SHEET.....	4
SYMBOLS.....	5
TARIFF FORMAT	6
SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS.....	7
1.1. Definitions	7
1.2. Abbreviations.....	9
SECTION 2 - RULES AND REGULATIONS	10
2.1. Undertaking of the Company.....	10
2.2. Limitations of Service.....	11
2.3. Limitations of Liability	12
2.4. Responsibilities of the Carrier Customer	16
2.5. Allowances for Interruptions in Service	18
2.6. Applications for Service	21
2.7. Installation of Service	22
2.8. Termination of Access Service	23
2.9. Blocking of Access Traffic	31
2.10. Effect on Interstate Interexchange Carrier Presubscription	35
2.11. Payment of Charges	35
2.12. Contested Charges	36
2.13. Taxes	36
SECTION 3 - DESCRIPTION OF SERVICE.....	37
3.1. Timing of Calls	37
3.2. Service Commencement Date.....	39
3.3. Service Cancellation Date.....	39
3.4. Access Service Offerings.....	40

Issued: May 21, 2001

Effective: May 22, 2001

**By: Kristene Stark
Tariff Administrator
401 Carlson Circle
San Marcos, Texas 78666**

TABLE OF CONTENTS

	Page
3.5. Additional Carrier Customer Service Offerings	41
3.6 Ordering Switched Access Service	
SECTION 4 - RATES AND CHARGES	57
4.1. Access Service Offerings	57
4.2. Miscellaneous Charges	58

Issued: May 21, 2001

Effective: May 22, 2001

**By: Kristene Stark
Tariff Administrator
401 Carlson Circle
San Marcos, Texas 78666**

SECTION 4 - RATES AND CHARGES

4.1. Access Service Offerings

4.1.1. Carrier Switched Access Service

4.1.1.A. Common Carrier Line

{R}

Per minute charge:

Composite rate parallel to incumbent

4.1.1.B. End Office Switching

Per minute charge:

Composite rate parallel to incumbent

4.1.1.C. Common Transport

Per minute charge:

Composite rate parallel to incumbent

Per minute per mile:

Composite rate parallel to incumbent

4.1.1.D. Tandem Switching

Per minute charge:

Composite rate parallel to incumbent

{R}

4.1.2. Blocking of Access Traffic

This service is offered on an ICB.

Issued: June 25, 2004

Effective: June 27, 2004

**By: Kristene Stark
Tariff Administrator
401 Carlson Circle
San Marcos, Texas 78666**

Grande Communications Networks, Inc.

F.C.C. Tariff No. 2
1st Revised Sheet No. 58
Replaces Original Sheet No. 58

SECTION 4 – RATES AND CHARGES (Cont'd)

4.2. Miscellaneous Charges

4.2.1. Access Order Activation Charge

Per activation: \$25.00

4.2.2. Access Order Modification Charges

Design Change Charge: \$26.21

Service Date Change Charge: \$26.21

4.2.3. CIC Activation Charge

First End Office: \$63.00

Additional End Office: \$35.00

4.2.4. CIC Change Charge

First End Office: \$63.00

Additional End Office: \$35.00

4.2.5. CIC Removal Charge

First End Office: \$63.00

Additional End Office: \$25.00

4.2.6. Bad Check Charge

Per returned check: \$25.00

4.2.7 Rate per Query

800 NPAS Query \$.00885

Issued: June 23, 2005

Effective: June 29, 2005

By: Kristene Stark
Tariff Administrator
401 Carlson Circle
San Marcos, Texas 78666

EXHIBIT 6